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An analysis of Non-Banking Financial Companies (NBFC) in post Covid19 pandemic era

Dr.Vaibhav Namdeo Ubale
Mobile:- 9890608846, email:- ubale.vaibhav@gmail.com
Associate Professor, Department of MBA, SND College Of Engineering & Rc, Yeola 423401, District Nashik (MH)

Dr. Pushpraj Wagh
Mobile:- 9922950687, email:- pushprajwagh864@gmail.com
Assistant Professor, Yashaswi Education Society's International Institute of Management Science, Chinchwad, Pune 411033

Mr.Vishal Balkrishna Samudre
Mobile:- 9975753396, email:- vishal.samudre@gmail.com
Assistant Professor, Department of MBA, SND College Of Engineering & Rc, Yeola 423401, District Nashik (MH)

ABSTRACT

NBFCs have performed a key position in capital formation. NBFCs had been supplementing the banking sector via way of means of bridging the credit score differences, i.e., in assembly the growing monetary wishes of the corporate sector, turning in credit score to the deprived area and to small neighborhood borrowers. NBFCs experience a flexible structure than compared to banks within side the organized area. From time to time, the Central Government as well as Reserve Bank of India had been operating toward law of NBFCs. The Department of Non-Banking Supervision of RBI has been worried in those sports of regulating in addition to supervising the NBFCs. The gift paper cognizance on "Growth and Development of Non-Banking Financial Companies in India" after covid19 pandemic is an attempt to examine evolution, increase and improvement of Non-Banking Financial Companies in India.

Key Words: Non-Banking Financial Companies Organized Banking Sector, Financial Institutions, and Financial Supermarkets, Reserve Bank of India, Supervision and Regulation.

INTRODUCTION TO NON-BANKING FINANCIAL COMPANIES

NBFCs are economic intermediaries engaged by and large within side the commercial enterprise of accepting deposits and delivering credit. They play a crucial function in channelizing the scarce economic assets for capital formation. NBFCs complement the function of the banking quarter in assembly the growing economic desires of the corporate sector, turning in credit score to the unorganized quarter and to small nearby borrowers. NBFCs have an extra flexible structure than banks. As compared to banks, they are able to take short decisions, expect extra risks, tailor-make their offerings and expenses in keeping with the desires of the clients.

Their bendy shape facilitates in broadening the marketplace through presenting the saver and investor a package of offerings on a aggressive basis. Anon-banking economic agency has been described vide clause (b) of Section 45-1 of Chapter IIIB of the Reserve Bank of India Act, 1934, as(I) a economic institution, that's a agency;(ii) a non-banking institution, that's a agency and which has as its most important commercial enterprise the receiving of deposits beneath Neath any scheme or association or in another way or lending in any way;(iii) Such different non-banking establishments or elegance of such establishments, because the financial institution may also with the previous approval of the primary authorities and through notification with inside the legit gazette, specify.Non-banking economic establishments (NBFIs) incorporate a heterogeneous institution of economic intermediaries.Those beneathneath the regulatory purview of the Reserve Bank encompass all-India economic establishments (AIFIs),non-banking economic companies (NBFCs)1 and number one dealers (PDs) AIFIs are apex institutions established for the duration of the improvement making plans technology to offer long-time period financing/refinancing to specific sectors such as(i) Agriculture and rural improvement;(ii) Trade;(iii) Small industries; and(iv) Housing. NBFCs are ruled through joint inventory companies, catering to area of interest regions starting from non-public loans to infrastructure financing.

RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

This paper is based on secondary data. Method calls for collecting applicable statistics via journals, newspapers, books, magazines and internet. Profitability indicators this phase covers few profitability signs of the NBFC region as an entire with a purpose to supply an understanding of the overall performance.

OBJECTIVES OF THE STUDY

The main objective of this study is-

- To study role played by NBFCs in post Covid 19 pandemic era for economic development.
- To study asset and liabilities of NBFC.
- To study Financial Performance, Asset Quality and Capital Adequacy

REVIEW OF LITERATURE

Vivekanandan and Mohan (2016) in their study “A review on impact of financial sector reforms on non-banking financial corporation” observed that NBFCs in India represented a varied group of privately-owned, medium and small-scaled financial intermediaries which offered a variety of services including hire purchase, equipment leasing, short term and long term loans, investments and chit fund activities, gold loan, etc.

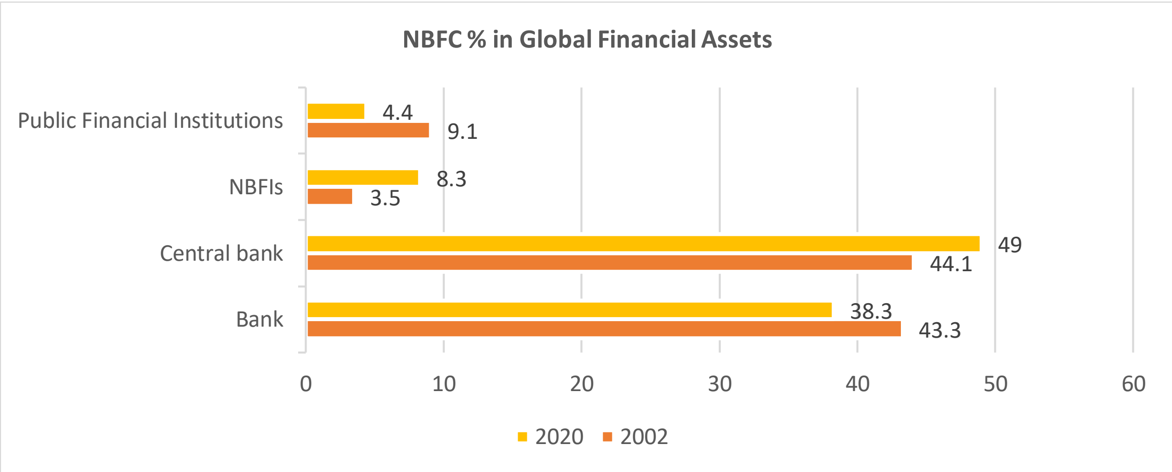
Devi (2014) in his paper “Investment Strategies in NBFCs” showed that financial intermediaries like Non-Banking Financial Companies (NBFCs) comprised a significant element of the financial system and had penetrated into those areas where banks would have been able to take both the operational and regulatory risks. It was found that among all the components of assets, advances accounted for a principal share of the total assets followed by investments in securities.

Das (2016) in his paper "Performance and Growth of Non-Banking Financial Companies as Compared to Banks in India" compared the growth of NBFC sector and banking sector in India. A positive relationship was found between the GDP growth rate and the growth of banking and NBFC sector.
Basu (2019) in his paper "Financial Performance of NBFCs – A Comparative Study on Selected Investment and Assets Finance Companies" make a comparative analysis of the financial performance of selected investment and assets finance companies. The study concluded that there is no difference between the financial performances of each category of NBFCs apart from their nature of activities under their respective categories.

- **An International overview of NBFC 2002 to 2020**

In view of the developing significance of the NBFC quarter in India's monetary ecosystem, this text appears at the overall performance of pick NBFCs in 2021-22 as much as December 2021 following the second one wave of the pandemic the use of the supervisory statistics filed with the aid of using NBFCs at the extensible Business Reporting Language (XBRL) platform 3

NBFIs took up the distance vacated via way of means of banks (CGFS, 2018). As a result, globally, the world witnessed an expansion, developing from USD fifty eight trillion in 2002 to 226 trillion in 2020 4, offering an opportunity to bank financing. Their proportion in international economic property improved from forty four in line with cent in 2002 to forty nine in line with cent in 2020



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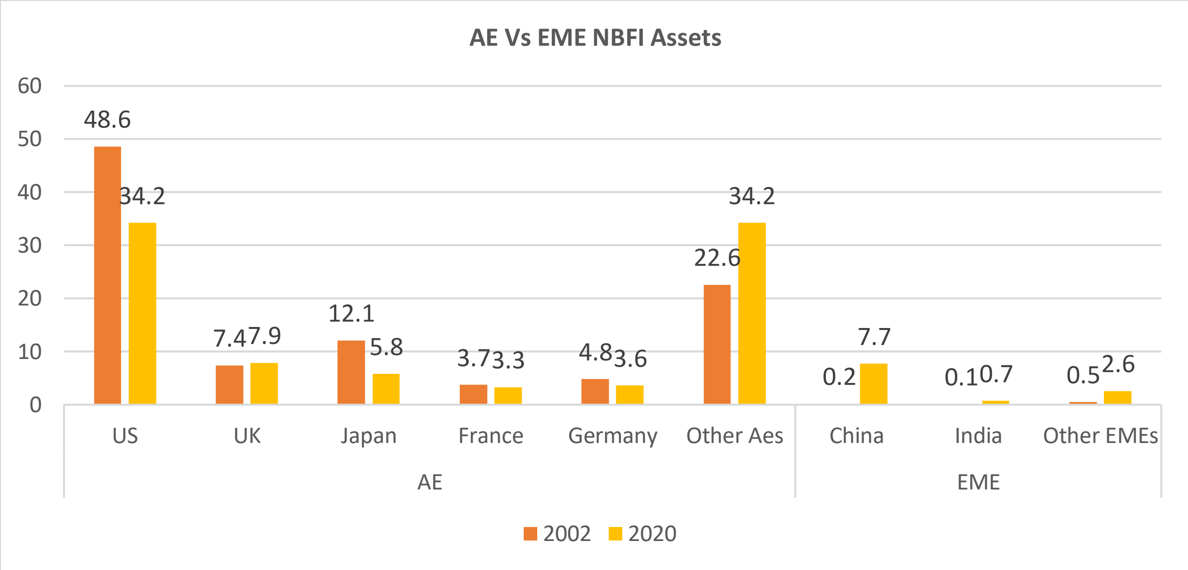
India is a small participant at the worldwide level, accounting for 0.7 consistent with cent of the worldwide NBFI property in 2020 (Chart 2). However, the dimensions of the NBFI region as a percentage of India's GDP has improved from 18 consistent with cent in 2002 to over 60 consistent with cent in 2020, which highlights the growing significance of the arena in India's monetary landscape.



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- <u>**A General Overview of the NBFC sector in Indian Context**</u>

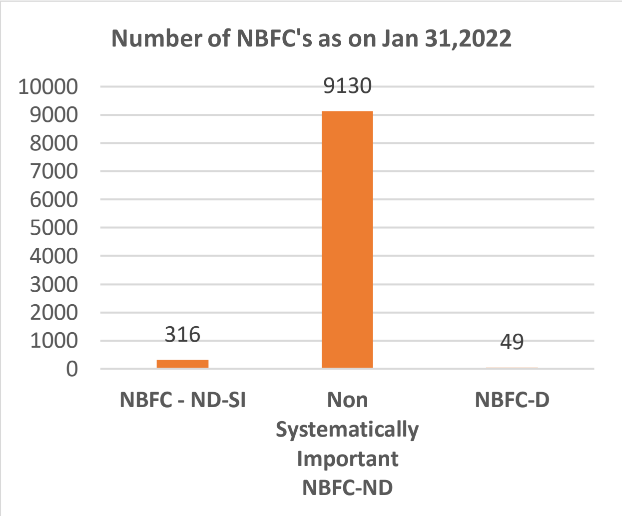
A General Overview of the NBFC sector As on January 31, 2022, there had been 9,495 NBFCs registered with the Reserve Bank. Based on liability structure, NBFCs are categorized into deposit-taking NBFCs (NBFCs-D), which is probably allowed to raise term deposits and non-deposit taking NBFCs (NBFCs-ND). NBFCs-ND are in addition categorized as systemically crucial NBFCs (NBFCs-ND-SI) if their asset period exceeds ₹500 crore. Based on the shape of activity they undertake, NBFCs are labeled into 12 categories.

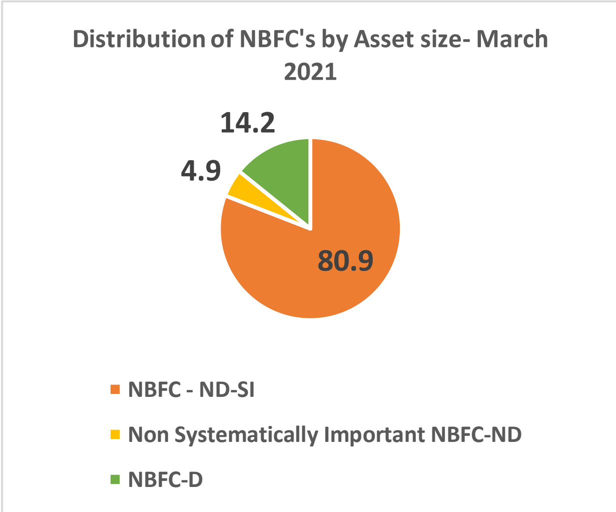
Classification of NBFC Sector by Activity	
Type of NBFC	**Nature of activity / Principal business**
Investment and Credit Company (ICC)	Lending and investments.
Infrastructure Finance Company (IFC)	Providing loans for infrastructure development.
Infrastructure Debt Fund (IDF)	Facilitate flow of long-term debt to infrastructure projects.
Core Investment Company (CIC)	Investment in equity shares, preference shares, debt, or loans of group companies.
NBFC- Micro Finance Institution (NBFC-MFI)	Collateral free loans and advances to small borrowers.
NBFC – Factor	Factoring business i.e., financing of receivables.
Non-Operative Financial Holding Company (NOFHC)	For setting up new banks in private sector through its promoter/promoter groups.
Mortgage Guarantee Company (MGC)	Providing mortgage guarantees for loans.
Asset Reconstruction Company (ARC)	Acquiring and dealing in financial assets sold by banks and financial institutions.
Peer-to-Peer Lending platform (P2P)	Providing an online platform to bring lenders and borrowers together to help mobilize funds.
Account Aggregator (AA)	Collecting and providing information about a customer's financial assets in a consolidated, organized and retrievable manner to the customer or others as specified by the customer.

Housing Finance Company (HFC)	Financing for housing.

Source: RBI.

In terms of extensive type of companies, NBFCs-ND, with an asset period of tons much less than ₹500 crore, have the maximum critical percentage. The extensive type of NBFCs-D has reduced from sixty 4 in January 2021 to 40 9 in January 2022. NBFCs-ND-SI are 2d in terms of extensive type of companies, but they have the maximum critical percentage of spherical 81 in line with cent of the whole assets of the sector. As of March 2021, NBFCs-D accounted for nearly 14 in line with cent and non-systemically crucial NBFCs-ND, spherical 5 in line with cent of the whole assets of the sector.





- **<u>Critical analysis of NBFCs Balance Sheet</u>**

The consolidated stability sheet of NBFCs recorded a better Y-o-Y increase in quarter finishing December 2021 in comparison to December 2020. The increase become pushed through an uptick within side the economic system after passing of the second one wave of the pandemic, launch of pent-up demand, availability of adequate provisions, and stepped forward capital positions. An evaluation of NBFCs-ND-SI and NBFCs-D at some point of the corresponding length additionally indicates a growth in their stability sheets.

<u>Liabilities Structure of NBFCs</u>

Borrowings and reserves and surplus collectively represent nearly 88 per cent of the legal responsibility aspect of stability sheet. At end-December 2021, the reserves and surplus grew at a sturdy tempo thanks to ploughing lower back of income via way of means of NBFCs, which had been aimed toward bolstering their stability sheets. NBFCs depend closely on bank and marketplace borrowings to satisfy their investment requirements, besides NBFCs-D, which have get entry to public deposits as well.

"Consolidated Balance Sheet of NBFCs (₹ crore)"

	Amount outstanding at the end of			Y-o-Y growth (Per cent)	
	Dec-20	Mar-21	Dec-21	Dec 20 over Dec 19	Dec 21 over Dec 20
1. Share Capital	87,877	91,392	92,902	14.1	5.7
2. Reserves and Surplus	4,36,427	4,63,942	5,18,518	13.5	18.8

3. Public Deposits	52,524	56,426	63,510	27.4	20.9
4. Total Borrowings	19,63,017	21,01,027	22,08,431	10.9	12.5
5. Current Liabilities &Provisions	1,71,847	1,72,047	1,73,283	12.4	0.8
6. Other Liabilities	26,100	33,903	52,619	3.9	101.6
Total Liabilities / Assets	27,37,792	29,18,738	31,09,263	11.7	13.6
1. Loans and Advances	22,52,413	23,93,871	25,02,575	17.7	11.1
2. Investments	2,32,851	2,41,748	2,80,547	18.1	20.5
3. Cash and Bank Balances	1,16,197	1,31,857	1,40,814	47.7	21.2
4. Other Current Assets	78,129	74,707	80,916	2.5	3.6
5. Other Assets	58,203	76,555	1,04,411	-68.4	79.4

Source: Supervisory Returns, RBI

NBFCs have each secured and unsecured borrowings. The percentage of secured borrowings constituted greater than 1/2 of of general borrowings at end-December 2021. Bank borrowings grew at a better tempo than marketplace borrowings in quarter-ending December 2021

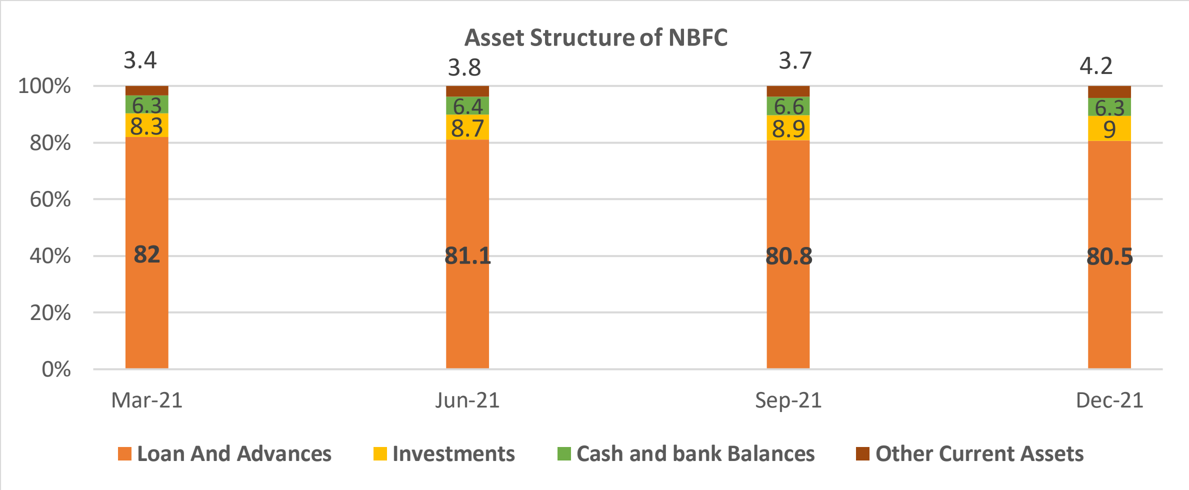
Bank borrowings includes time period loans, working capital loans, coins credit score and overdraft. Post the IL&FS episode, there has been a sluggish realignment of NBFCs' borrowings with growing reliance on long-time period borrowings.

Hence, time period loans shape preponderant proportion in the borrowings from banks via way of means of NBFCs. Sustained boom in time period loans is indicative of financial healing gaining momentum. On the opposite hand, boom price of working capital loans remained subdued.

<u>Asset Structure of NBFCs</u>

Loans and advances observed via way of means of investments shape the largest additives at the belongings aspect of the stability sheet of NBFCs. NBFCs expand greater of secured loans than unsecured loans. NBFCs make investments in, inter alia, government securities, equities, debentures, bonds, and mutual funds.

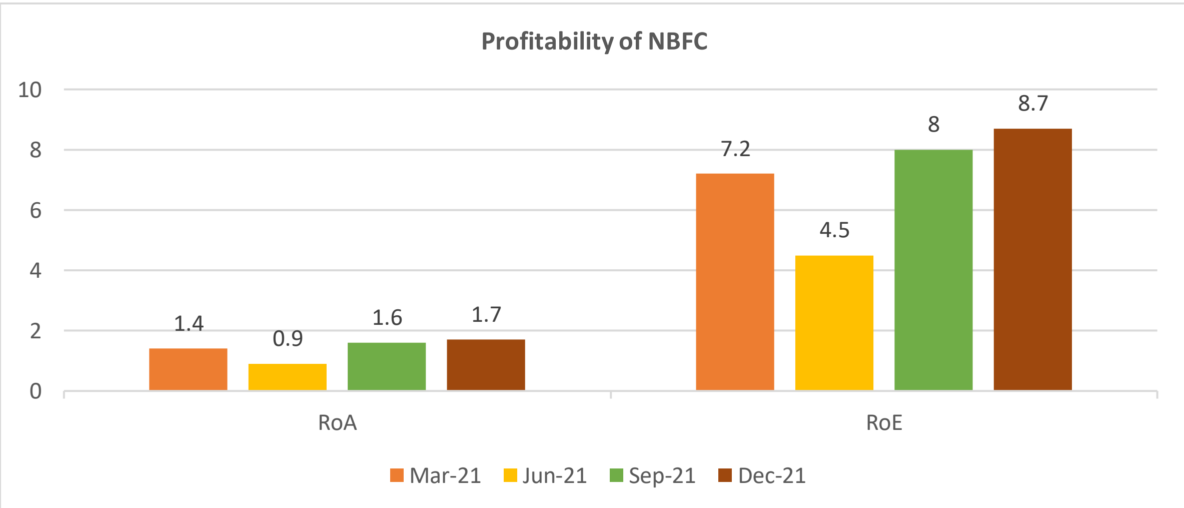
NBFC credit score confirmed an incremental increase of 11.1 consistent with cent at the give up of December 2021 in comparison to 17.7 consistent with cent in December 2020, which was because of a beneficial base effect. NBFCs persisted to consciousness greater on investments as indicated via way of means of their increase costs exceeding increase in credit score in all quarters at some point of 2021-22, so far. As NBFCs preserved coins within side the preceding periods, incremental increase of coins and financial institution balances fell in zone ending December 2021. This is indicative of cushty liquidity role of NBFCs on their stability sheets aided in addition via way of means of the systemic surplus liquidity.



- **Financial Performance, Asset Quality and Capital Adequacy**

The profitability of the NBFC region progressed in Q3:2021-22 as compared to the corresponding region in 2020-21 as economic system shook off the effect of the second one wave with highly fewer operational disruptions (Chart 15). NBFCs-ND-SI, the biggest phase in NBFCs, skilled robust boom in fund and fee-primarily based totally profits, which gave fillip to their profitability. On the alternative hand, at the same time as the profits of NBFCs-D grew most effective marginally, profits grew at the again of declining hobby expenses.

The asset excellent of NBFCs, which had worsened because of the second one wave of the pandemic, stabilised at some stage in Q2:2021-22. However, an uptick in GNPA and NNPA ratios became witnessed in Q3:2021-22 as NBFCs absorbed the effect of revised profits recognition, asset category and provisioning (IRACP) norms8. The deterioration in asset excellent became in all likelihood additionally due to rolling again of regulatory forbearance supplied to people and small agencies under the Resolution Framework 2.zero via way of means of directing NBFCs to invoke it most effective for borrowers having strain because of COVID-19.



- **Conclusion**

Though India bills for much less than 1 in line with cent of the worldwide NBFI assets, the percentage of NBFI area in India's GDP has gradually improved over time. Around forty five in line with cent of the NBFI area (in phrases of asset size) in India contain entities which interact in credit score intermediation regarding adulthood and liquidity transformation and are, therefore, essential from a financial balance standpoint. Based on supervisory data, in quarter-finishing December 2021, the consolidated stability sheet of NBFCs grew at a quicker tempo than the corresponding duration within side the preceding year. The backside strains of the NBFC area additionally advanced in Q2 and Q3: 2021-22 with the waning of the second one wave of COVID-19. On the alternative hand, asset first-rate of the arena deteriorated in Q3:2021-22, which may be partially attributed to NBFCs adapting to the adjustments in IRACP norms in addition to rolling lower back of regulatory dispensation beneath Neath Resolution Framework – 2.zero for people and small businesses.

With sturdy capital buffers, ok provisions, and sufficient liquidity on their books, NBFCs are poised for expansion. Nevertheless, going forward, because the economic system recovers, NBFCs want to be cautious of growing borrowing expenses attributable to normalisation of economic policy. Further, whilst NBFCs have in large part realigned their commercial enterprise fashions through leveraging virtual channels to enhance their accessibility and acquisition of recent customers, this could prove to be a undertaking for smaller NBFCs which might also additionally need to ramp up their technological capabilities. NBFCs additionally want to stay extra vigilant about cybercrimes. Another undertaking is to construct upon sturdy governance and risk control requirements to benefit stakeholder confidence.

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